



**REGULAR MEETING**  
**PUBLIC EMPLOYEES' RETIREMENT BOARD**

**JUNE 1, 2006**

The regular meeting was called to order by Vice President Paull at 8:30 a.m. Thursday, June 1, 2006. Roll call was taken with all members of the Board being present, with Carole Carey attending via conference phone. Board members and staff present were:

Carole Carey, President  
John Paull, Vice President  
Robert Griffith, Member  
Jay Klawon, Member  
Troy McGee, Member  
Elizabeth Nedrow, Member  
Terry Smith, Member  
Roxanne Minnehan, Executive Director  
Melanie Symons, Counsel  
Linda Owen, Secretary

**OPEN MEETING**

Stephen C. Kologi, AMRPE; Jim Kembel, MPPA, MACOP, TIAA-CREF; Kathy McGowan, MSPOA; Mike O'Connor, Retired PERS member; Mark Taylor, Association of Montana Troopers; Kurt Bushnell, Rick Ryan, Chad Nicholson, Matt Norby, Jack Trethewey, and Ed Regele, members of the Montana State Firemen's Association; and Kim Flatow, Member Services Bureau Chief; Barb Quinn, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; Carolyn Miller, Administrative Officer, MPERA, joined the meeting.

**Public Comment** – *No public comment on any subject of interest to the Board not on the agenda.*

**MINUTES OF OPEN MEETING**

The minutes of the open meeting of May 4, 2006 were presented. Mr. Klawon moved that the minutes of the previous open meeting be approved as amended. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**EXECUTIVE DIRECTOR'S REPORT** – Roxanne Minnehan, Executive Director

**Reschedule July Board Meeting** – Due to a request from the Executive Director regarding a scheduling conflict, Mr. Klawon made a motion to reschedule the July Board meeting from July 6 to July 13. Ms. Nedrow seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

June 1, 2006

Page 2

**NASRA Conference** – Board members were asked if any of them were interested in attending the NASRA Conference August 4-9 in San Diego. Ms. Nedrow had previously voiced an interest. No Board members will attend.

**PERS Contract** - The Executive Director presented a contract to extend PERS coverage to employees of Park County Special Education Cooperative. Mr. Klawon made a motion to accept the PERS contract for Park County Special Education Cooperative. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**457 Deferred Compensation Resolution and Agreement – North Valley Public Library** – A new employee of the North Valley Public Library in Stevensville belonged to a 457 deferred compensation plan through a previous employer in Missoula. When she began work with the Library, she approached both her new employer and MPERA and requested information about the State 457 Deferred Compensation Plan.

Information was sent to the North Valley Public Library in March 2006, followed by a presentation to the Library Board in April 2006. After the presentation, the Library Board reviewed the required Resolution and Adoption Agreement and signed them at their April 27, 2006 meeting.

Mr. Klawon moved to accept and sign the Resolution and Adoption Agreement allowing the North Valley Public Library to join the State 457 Deferred Compensation Plan effective July 1, 2006. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**401(a) Defined Contribution and 457 Deferred Compensation Investment Option Structure** – Initially, the Board wanted the investment option structures different in the Defined Contribution Retirement Plan (DCRP) and the 457 Deferred Compensation Plan, with respect to the plans having different purposes. Kathy Samson noted that in 2002, when the Defined Contribution Retirement Plan (DCRP) was implemented, the Board established a very specific structure with no overlapping of the investment options in the DCRP and the 457 Deferred Compensation Plan. As of last year, there were two of the same investment options in both plans. If the Board approves the 2006 EIAC recommendations and changes that will be discussed later, four of the same investment options will be in both plans. Staff is seeking direction from the Board to establish a policy relative to the overlapping of investment options between the plans.

Mr. Smith felt it would be easier to have the same investment options for both plans because it would simplify things by having fewer options to analyze. As a member of the DCRP and the 457 plan, he sees it as paying a consultant twice for the same information. He suggested the Board consider in the upcoming RFP, how to structure the mutual funds and revenue-sharing agreements between the MPER Board, administration, the mutual funds, and the fee structures. Ms. Samson stated that, essentially, the criteria under which the investment options in each plan are analyzed and benchmarked are the same in both plan Investment Policy Statements. The RFP is not for investment options; it is just for recordkeeping and administration. However, the current IPS already addresses fees and what the expectations are.

June 1, 2006

Page 3

Mr. Smith moved that staff draft an investment option policy reflecting that it is better if investment options between the plans are the same or overlap. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Employee Investment Advisory Council (EIAC) Recommendations** – EIAC is continuing its review of the 401(a) Defined Contribution Retirement Plan investment options. Their May 10, 2006 meeting resulted in two recommendations to the DCRP investment option structure per Board decisions:

*Recommendation #1: Mid Cap Growth Fund* – terminate the Artisan Mid Cap Investors and replace with the Munder Mid Cap Core Growth. EIAC's rationale, based upon manager search conducted by Arnerich, Massena & Associates, was that the Munder Mid Cap Core Growth fund has good returns, low volatility and low expense ratio. EIAC vote was unanimous.

*Recommendation #2: Small Cap Growth Fund* – terminate the Brown Capital Small Company and replace with the Managers AMG Essex Small/Micro Cap Growth. EIAC's rationale was based upon manager search conducted by Arnerich, Massena & Associates, that the Managers AMG Essex Small/Micro Cap Growth fund has better performance and less volatility. EIAC vote was unanimous.

Mr. Klawon moved that the Board accept and approve the above EIAC recommendations for investment option changes within the 401(a) Defined Contribution Retirement Plan. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

EIAC is also continuing its review of the 457 Deferred Compensation Plan investment options. Their May 10, 2006 meeting resulted in five recommendations to the DCRP investment option structure per Board decisions:

*Recommendation #1: Mid Cap Growth Fund* – terminate the Artisan Mid Cap Investors and replace with the Munder Mid Cap Core Growth. EIAC's rationale, based upon manager search conducted by Arnerich, Massena & Associates, was that the Munder Mid Cap Core Growth fund has good returns, low volatility and low expense ratio. EIAC vote was unanimous.

*Recommendation #2: Small Cap Growth Fund* – terminate the RS Diversified Small Cap Growth fund and replace with the Managers AMG Essex Small/Micro Cap Growth. EIAC's rationale, based upon manager search conducted by Arnerich, Massena & Associates, was that the Managers AMG Essex Small/Micro Cap Growth fund has better performance and less volatility. EIAC vote was unanimous.

*Recommendation #3: International Value Fund* – terminate the Templeton Foreign Fund and replace with the Dodge and Cox International Stock fund. EIAC's rationale, based upon manager search conducted by Arnerich, Massena & Associates, was that the Dodge and Cox fund has better performance, outstanding risk/reward profile and low expenses. EIAC vote was unanimous.

June 1, 2006

Page 4

*The next two recommendations add investment classes and categories to the 2002 Board structure. Both recommendations are the result of retaining the Neuberger Berman Genesis Trust fund as it has shifted orientation. Retention of the Neuberger Berman Genesis Trust fund, by default, added investment classes and categories outside the Board's 2002 investment structure.*

*Recommendation #4: Small Cap Blend Fund* – add the Vanguard Small Cap Index as a small cap blend fund. The small cap blend class and category was vacated by the Neuberger Berman Genesis Trust fund as it migrated from its original small cap value to small cap blend to mid cap growth to mid cap blend. EIAC's rationale for the Vanguard Small Cap Index was that the fund will fill the class and category vacated by the Neuberger Berman Genesis Trust fund. The fund is low cost, well diversified, no tracking errors (will not under-perform the index), and is a nice passive option (as opposed to actively-managed). EIAC vote was unanimous.

*Recommendation #5: Mid Cap Blend Fund* – retain the Neuberger Berman Genesis Trust fund as a mid cap blend investment option. The Board terminated the Neuberger Berman Genesis Trust fund in March 2006 from the small cap blend class and category. Assets in the Neuberger Berman Genesis Trust fund are to remain in the fund and not redirected to the "new" small cap blend fund. EIAC's rationale for retaining the Neuberger Berman Genesis Trust fund was that the fund has had satisfactory past performance and is popular with plan participants. EIAC vote was unanimous.

Ms. Samson pointed out that the Board could keep the Neuberger Berman fund in that class and category, and add that asset option to the plan because people really like that fund. Or the Board could terminate it because it does not fit in the structure, and having 20 or less funds. Ms. Nedrow felt the more important question was if it was consistent with the Investment Policy Statement (IPS). Ms. Samson said yes, that these new slots meet the criteria for having options in the plan. Ms. Nedrow stated she would be open to a more aggressive look at the number of investment options, making the IPS consistent, and reducing the number of funds offered under the 457 plan.

Mr. McGee had a problem with #4 and #5, but did not know exactly what to do about Neuberger Berman fund because of its popularity. Staff was also directed to review the usage of the profile funds.

Mr. Klawon moved that the Board accept and approve the above EIAC recommendations – 1 through 5 – for investment option changes within the 457 Deferred Compensation Plan. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye, and Ms. Nedrow and Mr. McGee voting nay.

**FY 2007 Contracts:** The Executive Director presented addendums to extend current service contracts for one year for the following:

*Ice Miller, Tax Consultants* – The purpose of the addendum is to extend the termination date of the original contract from June 30, 2006 to June 30, 2007. The terms and services of the agreement remain unchanged except for the following:

- (1) the scope of duties shall be expanded to include:
  - a. the defined contribution plan and the deferred compensation plan; and

June 1, 2006

Page 5

- b. labor law expertise concerning collective bargaining agreements in the context of retirement plan provisions; and
- (2) the charges for the standard hourly rates of personnel utilized shall be based on the current hourly fee schedule with a 15% discount applied.

*Jim Goetz, Litigation Attorney (assistance with the Baumgardner case)* – The purpose of the addendum is to extend the termination date of the original contract from June 30, 2006 to June 30, 2007. The terms and services of the agreement remain unchanged.

*Mona Jamison, Hearings Examiner* – The purpose of the addendum is two-fold:

- (1) Extend the termination date of the original contract to June 30, 2007; and
- (2) Increase the hourly rate from \$110 to \$125, and the maximum paid under the contract of \$17,000.

*Agency Legal Services Bureau (ALSB)* – The purpose of the addendum is to extend the termination date of the original contract from June 30, 2006 to June 30, 2007. ALSB rates will be \$74 per hour for attorneys and \$46 per hour for paralegals and investigators during the upcoming fiscal year.

Mr. McGee moved to approve one-year addendums to the following contracts for services for Ice Miller, Tax Consultants; Goetz, Gallik, Legal Services; Mona Jamison, Hearings Officer; and Agency Legal Services, Hearings Officers and Legal Services. President Carey seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Bean Lawsuit – MANG Firefighters** – The 2001 Legislature enacted legislation for Montana Air National Guard firefighters hired on or after October 1, 2001, to become members of the Firefighters' Unified Retirement System (FURS). The approximately 24 firefighters employed at that time were not allowed to elect coverage in FURS. Those firefighters have brought a suit against the State of Montana and the Montana Public Employee Retirement Administration (MPERA). The result of the lawsuit was a decision by Judge McCarter that legislation was unconstitutional, which Ms. Symons and Jon Ellingson, Assistant Attorney General, interpret as none of the MANG firefighters can be members of the FURS.

In a memo, Ms. Symons explained the MANG case. In the 2001 Legislature, SB 289 permitted current Montana Air National Guard (MANG) firefighters hired prior to October 1, 2001, to transfer from PERS to FURS and required all MANG firefighters hired on or after October 1, 2001 to be covered by FURS. MPERA supported the bill as it was actuarially sound.

During the legislative session, SB 289 was amended to prevent the pre-October 1, 2001 MANG firefighters from transferring from PERS to FURS. However, all MANG firefighters hired after October 2001 are now required to join FURS. Staff believes FURS is limited to new employees because of the significant increase in employer and state contributions required by FURS compared to PERS.

June 1, 2006

Page 6

Current MANG firefighters (plaintiffs) filed a lawsuit against the state and MPERA alleging that SB 289, as adopted, violates the Montana Constitution's Equal Protection Clause. The Attorney General's Office is defending both the state and MPERA. Cross motions for summary judgment were filed. Judge McCarter issued an Order on May 8, 2006, granting the MANG firefighters' motion for summary judgment. However, the Order holds only that SB 289 violates the Equal Protection Clause. No remedy was offered.

Statutes that are found to be unconstitutional on their face value are considered void from the beginning. Since SB 289 has been found to be unconstitutional, it is considered to never have existed. Therefore, rather than the plaintiffs becoming members of FURS, the MANG firefighters hired on or after October 1, 2001 should be in PERS, not FURS. This is certainly not the relief requested or anticipated by the plaintiffs. Nevertheless, the plaintiffs are considering themselves to be victorious and are requesting \$5,000 in costs and \$35,000 in attorney fees.

The Executive Director and Ms. Symons have given the Attorney General's Office authority to contest the motion for costs and attorney's fees. The Board must determine whether to appeal Judge McCarter's decision. The Attorney General's Office strongly recommends the decision be appealed. They believe the decision is wrong and that Judge McCarter should not be permitted to substitute her own feelings about legislation for that of the Legislature.

The decision does not, on its face, seem harmful to the retirement systems, but it may limit some of the remedies the Legislature is currently considering. However, those remedies can be distinguished as the benefit for the "new" employees is less than that for existing employees, and arguably fiscally required. The decision also impacts legislation being proposed by our member organizations and all police in MPORS. It would be beneficial to the Board to know whether the Supreme Court would support or overturn such improvements before taking a position on the proposals.

Staff has no idea whether the plaintiffs agree with their assessment that all MANG firefighters should, under Judge McCarter's decision, be in PERS. They also do not know what MANG firefighters currently in FURS will do if they are moved to PERS. MPERS staff recommends the Board follow the advice of the Attorney General and appeal Judge McCarter's decision to the Montana Supreme Court.

Mr. Griffith moved that the Board give the Attorney General's Office authority to appeal Judge McCarter's decision in *Bean v. State and MPERA* to the Montana Supreme Court, and seek clarification from Judge McCarter regarding her decision. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**SAVA Actuary Request** – The Executive Director advised the Board a request was received from the SAVA Committee to obtain an actuarial analysis of the estimated cost of requiring all future employees to become members of a defined contribution plan across all systems. If the transition from DB plans to DC plans were to take effect on July 1, 2007, the Committee respectfully requested the Board's consulting actuary answer a number of questions relating to the impact.

- What would be the normal cost rate, i.e., what percent of payroll would be required to actuarially fund the normal cost: What does that amount to in dollars? How much of the total amount is payable to state government and how much by local governments?
- What percent of payroll would be required to fund the unfunded actuarially accrued liability, if any? What does that amount to in dollars? How much of the total amount is payable by state government and how much by local government?
- What is the estimated total cost of the transition from the defined benefits plan to the defined contribution plan?
- In what year would the unfunded actuarially accrued liability, if any, be paid off?
- In what year would the PERB/MPERA most likely be able to stop administering benefits for members?
- What other effects or consequences are likely to occur as a result of the transition?
- What other effects or consequences could potentially occur as a result of the transition?

For the purpose of conducting the analyses, the actuary should use the same actuarial assumptions that are currently used. The Executive Director and Dave Senn, TRS Executive Director, will consult with the actuaries to reply to SAVA on what would “likely” happen without performing a costly and lengthy study. Mr. McGee requested that a copy of the results of this report be provided to the Board members.

**Employee Groups’ Legislative Proposals** – Ms. Minnehan advised the Board that Tom Schneider wanted them to know that MPEA will support any bill the Board puts forth that increases employer contributions, and they will oppose any form of DC plan. The SAVA Committee will be hearing retirement legislation from stakeholders at their June 22-23 meeting. Employee groups were asked to present their legislative proposals to the Board so they will be prepared to discuss their position on those proposals.

**SRS** – Kathy McGowan, Montana Sheriffs and Peace Officers’ Association (MSPOA)

Create a DROP modeling the MPORS DROP.

Proposed bill: Would allow deputy sheriffs with 20 or more years of service in the SRS, the option to participate in a deferred retirement option plan (DROP).

Ms. McGowan clarified that this did not come from the MSPOA; it came from the Yellowstone County Deputy Sheriffs’ Association. Although MSPOA has also thought about a DROP, they have no official position at this point. They want to make sure there would be no detrimental actuarial impact. However, they are interested and feel it would be a benefit to their members at some point.

A possible consideration is a Partial Lump-sum Option Plan (PLOP). Mr. McGee was not comfortable with having a PLOP because he thought the Board would want uniformity with a DROP. Ms. Symons noted that the actuary thought a PLOP would be a cost-neutral way of providing a lump-sum benefit IF the goal of either the Board or the Legislature was to give a lump-sum benefit. A PLOP would be a mechanism that would allow that to happen without having the actuarial impact a DROP might have, particularly as being proposed.

HPORS – Mark Taylor, Browning, Kaleczyc, Berry & Hoven, P.C.

Mr. Taylor has been doing work for the Association of Montana Troopers (AMT) for a number of years. The AMT Board is interested in evaluating (and potentially pursuing) the following concepts:

1. The ability to send mailings/association updates to HPORS members. This proposal is being brought forward by AMT's Board members who represent retired troopers. This may be more of an administrative function/decision, but wanted to bring it to the Board's attention. *They would be willing to work with MPERA staff to determine the level of effort involved in mailings, recognizing they would absorb the costs.*
2. The ability to withhold AMT dues similar to the withholding of group insurance under MCA 19-2-904. This proposal is also being brought forward by AMT's Board members who represent retired troopers. *They would investigate with MPERA staff the potential impact, administratively, in allowing retirees to have dues withheld from their benefit payment.*
3. Evaluation of whether a DROP would be beneficial to AMT members. *The AMT Board has not made a decision yet on whether or not it will be introducing or supporting legislation that would include a DROP for HPORS.*

Mr. McGee clarified that 1) the MPERA office does not release confidential information such as names and addresses. However, staff would have to make the decision to do mailings for outside parties. 2) He also noted the Board and staff do not want to get involved in withholding dues. It would be quite a chore and considerable staff obligation, particularly with overpayments, underpayments, addresses changes, etc. And what would limit additional requests from other parties? The Board has previously drawn the line on withholding health insurance for retirees. 3) The Board would be willing to look at a DROP for HPORS.

MPORS – Jim Kembel, representing the Montana Police Protective Association

The Montana Police Protective Association (MPPA) plans to propose three pieces of legislation for the 2007 session:

1. The proposal will eliminate the 9% employee contribution while in the DROP. *Paying 9% of salary while in the DROP is of no benefit to the member, but before that, the member was getting a year of service credit for the 9% while not in the DROP. Retirement is frozen at the time a member goes into the DROP. This needs to be more fully discussed with staff.*
2. Legislation to change the definition of "compensation" to include overtime, holiday pay and shift differential. *Some time ago, the MPORS changed the Final Average Compensation (FAC), which was based on the final month of employment and could easily be manipulated just before retirement (e.g. more overtime, shift differentials). When the FAC was placed at 36 months, it became more difficult to manipulate those figures. However, they changed it from the final month to the final 36 months without adjusting the*

*definition of compensation. They plan to phase in the holiday pay, overtime and shift differential over a three-year period. It will be funded through the employer and employee contributions based on those items. The phase-in should reduce the burden on all parties involved, and should not adversely affect the stability of the system.*

3. Request that all police officers, no matter what size city or town they work in, be mandated to join MPORS. *Currently, first and second class cities belong to MPORS. Smaller cities and towns have a choice of belonging to either MPORS or PERS. With the proposal to make all policemen members of MPORS, the cost to smaller towns will need to be reviewed.*

**FURS** – Kurt Bushnell, President of the Montana State Firemen’s Association (MSFA)

Three retirement proposals of interest to the MSFA:

1. DROP Program – This will mirror the MPORS DROP Program and will be the same as what is being proposed by the MPPA.
2. Legislation to allow retired FURS members to return to employment in second class cities. This legislation will resemble the PERS where the Legislature allows retirement members to work under a position to not exceed 960 hours in a year without losing their retirement benefits. *This is in an effort to provide needed services to taxpayers of that community in an affordable way that can keep qualified firefighters representing the city fire departments.*
3. Propose striking overtime from the definition of compensation 19-13-104(2)(c)(i), MCA. This will add overtime into the calculation for retirement benefits. *The new numbers proposed will be significantly lower this time around. The regular work week hours are extended, not to exceed 53 hours. In an effort to keep the overtime dollars down, it goes into their base wage. The unfunded liability is healthy, as far as funding possibilities.*

**Local Police Valuations – Dillon and Cut Bank** – Dillon and Cut Bank have local police funds. An actuarial valuation must be prepared every other year by the Board’s actuary (19-19-205, MCA). MPERA coordinates the valuation; however the state treasurer pays the expense. An April 27, 2006 letter from Milliman, the Board’s Consulting Actuary, stated that both of these cities are currently under funding their plans based on the methods and assumptions being used. The Actuary believes the methods and assumptions are reasonable. The current schedules of contributions are not expected to be sufficient to sustain either of the plans over the long term.

Milliman has completed the actuarial valuations using data as of June 30, 2005. Based on the information, data and assumptions, the estimated revenue is not sufficient to finance the future obligations of the systems. Cut Bank’s funding ratio is at 55%; revenue must be increased by 7.41% of payroll to fund the liabilities over a 30-year period. Dillon is funded at 9%; revenue must be increased by 18.72% of payroll to fund the liabilities over a 30-year period. The valuations have been forwarded to the cities.

Ms. Nedrow was not clear on the Board's responsibility in this matter. Mike O'Connor recommended the Board call attention to the city commission and make them realize that the actuarial valuation was reviewed by the Retirement Board and they recognize it is a problem that needs to be addressed. Mr. McGee agreed that the Board needs to address the seriousness of the problem. He would like Board Counsel to look into the matter so the Board is clearer on their responsibility.

Mr. McGee made a motion to have the Board President send a letter to the cities of Cut Bank and Dillon regarding the dire circumstances of their Police Retirement Systems, and include the April 27, 2006 letter from Milliman. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with four of the attending members voting aye and Ms. Nedrow and Mr. Smith voting nay. Mr. Klawon was out of the room.

**125 Cafeteria Plans** – Ms. Symons summarized that at the last Board meeting, there was an issue before the Board on the Voluntary Correction Program (VCP) for the 125 Cafeteria Plan. Discussion included whether to continue with the Board's request for prospective correction only, or if it should be retroactive correction, for highly compensated employees (HCE). The Board had decided to go only with prospective correction.

On May 12, 2006, Ms. Symons received communication with Ice Miller, the Board's tax counsel. The IRS individual who was reviewing the Board's VCP was satisfied with going prospective only, for everybody including HCE's, but his supervisor was not content with that. His supervisor, who is the final IRS determination, stated we could do prospective correction for everybody other than HCE's. They are requiring we go back and return contributions received on the health insurance premiums from those HCE's and adjust the retired HCE's retirement benefits, which will go down, based on compensation that does not include the premiums. The actual compliance statement was not received, but that was the Board's instructions as the IRS's final determination. That correction will have to be made for the identified HCE's who have retired (which is one). There are four active HCE's.

Ms. Symons pointed out that a Supreme Court decision states it is not the Board's responsibility to make sure contributions are done correctly; it is up to the employers.

**General Revisions Bill Table** – Staff has completed its initial review of statute clean-up for the General Revisions bill and Ms. Minnehan provided a table summarizing the proposed statute clarification changes to date and the reasons for the changes.

**Joint Issues Committee Meeting Update** – The Joint Issues Committee met on May 18, 2006, following the TRS Asset/Liability Study presentation at the BOI meeting. David Ewer noted there is vying interest for the surplus in the general fund. The committee discussed the current unfunded liability issues and where the funding will come from. General obligation bonds and increasing employer contributions were addressed. Mr. Ewer is aware of the concerns, which he will discuss with the Governor. Governor Schweitzer is waiting to see how things transpire before he takes a stand. A PERS Asset/Liability Study was discussed.

MPERA is providing support staff for 2006; Linda Owen and Kory Skinner will prepare minutes of the meetings for this year. The committee discussed meeting at least two times per year, but possibly more often this year to address the current critical situation. The next meeting of the Joint Issues Committee will be in late September after the actuarial valuations are completed.

**SAVA Meeting Update** – The next SAVA Committee meeting is June 22-23, to hear legislative proposals affecting public employee retirement plans. The Committee will be addressing legislation to change the PER Board to a quasi-judicial board, as suggested by David Niss. However, Ms. Minnehan said we would be opposing that because it would make this Board more of a political board instead of working for the best interest of our members and beneficiaries. Dave Bohyer talked about “fixes” to the retirement system in a report about what options might be available.

**Board of Investments Update** – Mr. Paull gave an update on the May 18, 2006 Board of Investments (BOI) meeting. The Asset/Liability Study for the Teachers’ Retirement System (TRS) was discussed. R.V. Kuhns had provided some conclusions on the study:

1. The number one concern was that the current employer contribution rate of 7.58% would not bring the TRS to full funding, even if the actuary assumed the investment returns are met the following years.
2. An increase in employer contributions, up to the recommended rate of 11.64%, which is a 4.06% increase, would gradually return TRS to 80% funded in the year 2025, and fully funded by the year 2035, assuming the actuarially assumed investment returns are met each year.
3. Alternative asset allocations exist that offer the prospect of higher expected long-term returns with less risk in the current portfolio.
4. Even with the portfolios as currently composed, it is probable the TRS funding status will improve from 70% to 78% by 2025; however, the improvement is due, exclusively, to the assumption that employer rates will raise to 11.64% on July 1, 2007.
5. A more diversified portfolio with less reliance on U.S. fixed income and large cap equities, and greater use of international equity, real estate, absolute return, and private equity, has a 50% probability of raising TRS funding status from its current 70% funding to between 90-102% or higher by 2025.
6. Some of the more diversified portfolio studies are projected to achieve funding improvements without additional risk.
7. Either of the diversified investment strategies, which are included in the study, mix one—moderate risk; and mix two—higher risk, raises the probability of more rapid improvements in funding levels.
8. Mix two, which is the higher risk strategy, produces a greater than expected improvement in the TRS funding status, but at the cost of system deterioration (i.e. 2001). Or with greater return, there will be more demand for a benefit increase.

Copies of the Asset/Liability Study reports can be obtained from Kim Dallas at the Board of Investments.

June 1, 2006

Page 12

**Operational Summary Report** - The Executive Director presented an operational summary report for the month of April 2006, answering any questions Board members had.

**Future Board Meetings** – Thursday: July 13, August 10, September 14, October 12, November 11 and December 14, 2006.

**The following portion of the meeting relates to matters of individual privacy. Vice President Paull determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.**

## **CLOSED MEETING**

## **MINUTES OF CLOSED MEETING**

The Executive Director presented the minutes of the closed meeting of May 4, 2006. Mr. McGee moved that the minutes of the previous closed meeting be approved. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

## **CONTESTED CASES**

**Henry A. Chapman, Jr. - Informal Consideration** –Mr. Chapman is requesting the Board reconsider its decision made on May 4, 2006, and allow him to purchase his reserve service from the City of Billings.

Ms. Nedrow moved to uphold the staff determination that Henry Chapman, Jr. is ineligible to purchase his reserve service and this request is denied. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with six of the attending members voting aye and Mr. McGee voting nay.

**Contested Case Report Update** - The Board Attorney presented a contested matter status report update.

## **RETIREMENT REPORT – Kim Flatow, Member Services Bureau Chief**

**Disability Claims** – Ms. Flatow presented the disability claims for Board consideration. Mr. Paull made a motion for approval of the disability claims as recommended, denying the claims for Carol Fiscus and Carol Hoagland. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**Finalized Service/Disability Retirement Benefits and Monthly Survivorship/Death Benefits** - Applications for service retirements/finalized disability benefits and applications for monthly survivorship-death benefits were presented to the Board. Mr. Paull made a motion to approve the retirement benefits as presented. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

June 1, 2006

Page 13

**Kathleen Carson - Informal Request** – Ms. Carson is requesting that the Board become a party to a settlement agreement between the City of Billings and Kathleen Carson, and grant full service credit to Ms. Carson for the time period between October 1997 and June 2000.

Mr. Klawon made a motion to grant Kathleen Carson's request that the Board become a party to the settlement agreement and that she receive service credit for the time period between 1997 and March 1999, provided Ms. Carson pays the employee and employer contributions due, plus interest through July 28, 2001. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

**The closed meeting was recessed and the open meeting was reconvened.**

**Hiring of Attorney** – Mr. McGee inquired about the status of hiring an attorney to replace Kelly Jenkins. The opening closes on June 5 and hopefully, a new attorney will be on board by the end of July.

## **ADJOURNMENT**

There being no further business to come before the Board at this date, Mr. Klawon made a motion to adjourn the meeting. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye. The next meeting is tentatively scheduled for July 13, 2006, at 8:30 a.m. in Helena.